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July 12, 1994

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Mr. William F. Caton
Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

Re: Notification of Permitted Written Ex Parte Presentation in MM Docket Nos. 92-266 & 93-215

Dear Mr. Caton:

E! Entertainment Communications, Inc. by its attorneys and pursuant to Section 1.1206(a)(1) of the Commission's rules, hereby submits two copies of this memorandum regarding a permitted ex parte presentation to Commission officials regarding MM Docket Nos. 96-266 & 93-215.

Today at 2:00, Lee Masters, President of E! Entertainment Television, Inc. and Debra Green, Senior Vice President, Affiliate Relations, along with Donna C. Gregg and Peter D. Ross of Wiley, Rein & Fielding met with Commissioner Rachelle R. Chong and Richard Welch, Legal Advisor to Commissioner Chong. The discussion related to issues raised in the above-named company pleadings in the cable rate regulation dockets cited above and on the attached.

Kindly direct any questions regarding this matter to the undersigned.

Respectfully submitted,

Donna C. Gregg

Donna C. Gregg

DCG/ddl
Enclosure

cc with: Richard Welch

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ENTERTAINMENT TELEVISION

Entertainment Television, Inc.

Negative Impact of Regulation On a Newer Programming Service

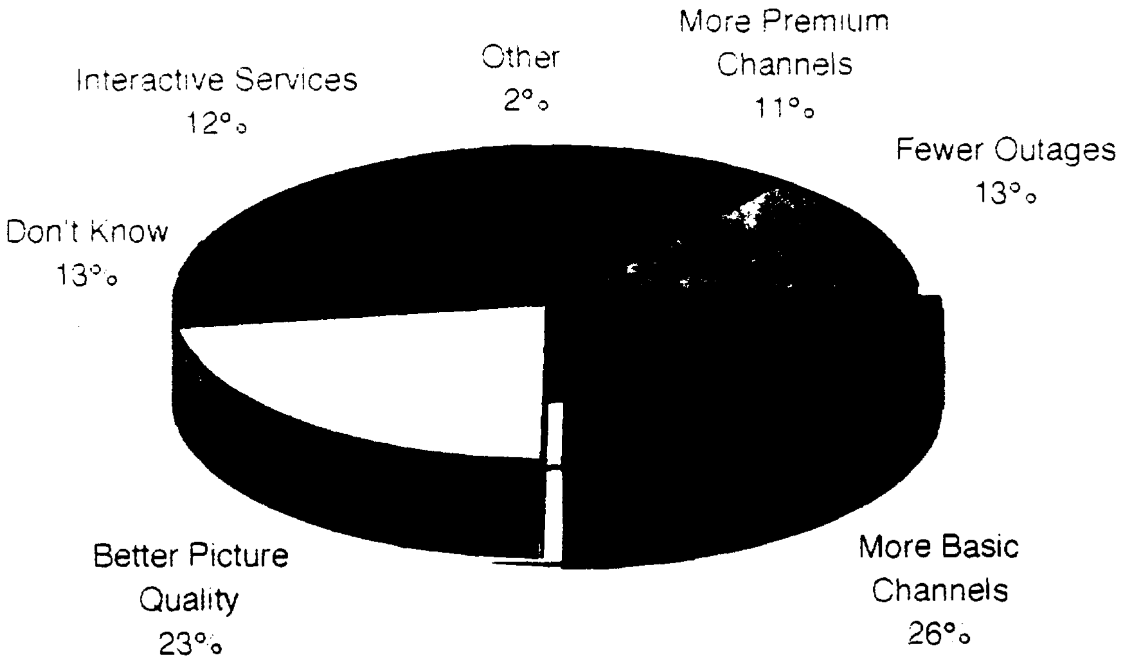
Presented to
The Federal Communications Commission

July 12, 1994

(Confidential)

The demand for more basic cable channels continues ...

What is the most important characteristic of the new digital computer technology?



Source: Broadcasting - Cable Report

E! ENTERTAINMENT TELEVISION, INC.

PROPOSED RULE REVISIONS TO ADDRESS ADVERSE IMPACTS OF THE MARCH, 1994 CABLE RATE REGULATION RULES ON ADVERTISER SUPPORTED CABLE TELEVISION NETWORKS

Summary of 3 Proposed Rule Revisions:

1. In addition to the program mark-up, increase the "network adjustment" for adding a channel to a minimum of 20¢ to 25¢.

2. Promote flexibility in the creation of unregulated à la carte options.

3. Delay any reduction in the maximum permitted charge for commercial leased access channels until significant channel capacity increases have been achieved.

INCREASE MINIMUM NETWORK ADJUSTMENT FOR ADDING CHANNELS TO 20¢ TO 25¢

- Cable operators have no incentive to add advertiser supported, low cost networks to their channel line-ups if allowable rate increases are based primarily on a mark-up equal to a percentage of programming costs.

- If rate increases are primarily based on a percentage mark-up on programming expenses, cable operators are likely to add only more ***expensive*** channels to obtain a higher return. ***This will result in higher overall cable charges and fewer viewing choices.***

- A more significant increase in the residual rate component (a flat per-added channel rate increase) will level the playing field among programmers and ***ensure that networks are added to scarce available channels based upon consumer preference and the ability of consumer demand to absorb reasonable cost increases.***

PROMOTE FLEXIBILITY IN THE CREATION OF UNREGULATED À LA CARTE OPTIONS

- The new rules are widely viewed by cable operators as limiting their ability to create innovative à la carte options to achieve higher system penetration levels.,

- Today, advertiser supported cable networks like E! cannot survive on regulated tiered growth alone, ***as current tiers achieve penetration rates below 20%--typically closer to 10%. Such low penetration levels are not sufficient to justify advertiser support.***

- While maintaining the sensible limitations on cable operators' ability to migrate existing services from regulated to unregulated tiers, we encourage the FCC to afford systems the flexibility to creatively package and market à la carte options consisting primarily of newly added services, including price discounting. ***This would increase consumer choice by producing low cost, multi-channel packages, would give newer networks an opportunity to be tested in the marketplace, and would encourage greater penetration levels.***

DELAY LEASED ACCESS PRICING REDUCTIONS UNTIL SIGNIFICANT CHANNEL CAPACITY INCREASES HAVE BEEN ACHIEVED

- Currently, the cable universe is almost completely channel locked. There is little or no room for additional networks.

- Decreasing the cost of obtaining leased access would increase the demand for leased access channel positions and thereby eliminate what little open channel capacity now exists. ***It is likely that advertiser supported networks like E! would experience no growth in this environment unless and until channel capacity is increased through system rebuilds, regardless of consumer demand for E!.***

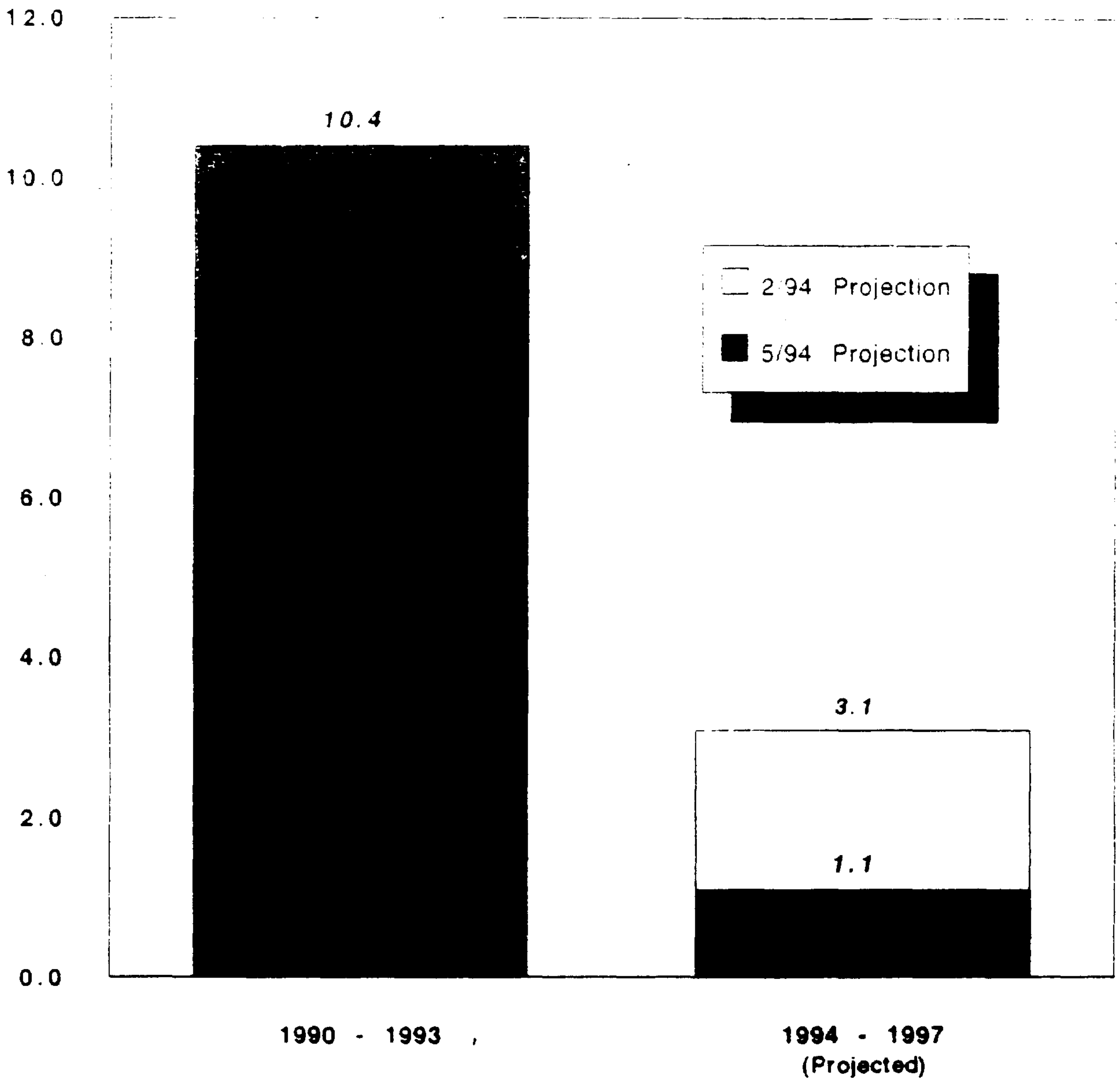
- Cable operators require cash flow and a return on their investments to obtain the financing necessary to invest in cable system infrastructure improvements. If more channels are eaten up by leased access, operator revenues will decrease and there will be less likelihood that the necessary capital investments will be made.

- When, as now, there is a scarcity of supply with respect to channels, it is fair and reasonable to charge higher prices for leased access. Once the supply of channels increases through capital investment in cable system infrastructure improvement, there will be an abundance of channel supply and prices for leased access may fairly be lowered.

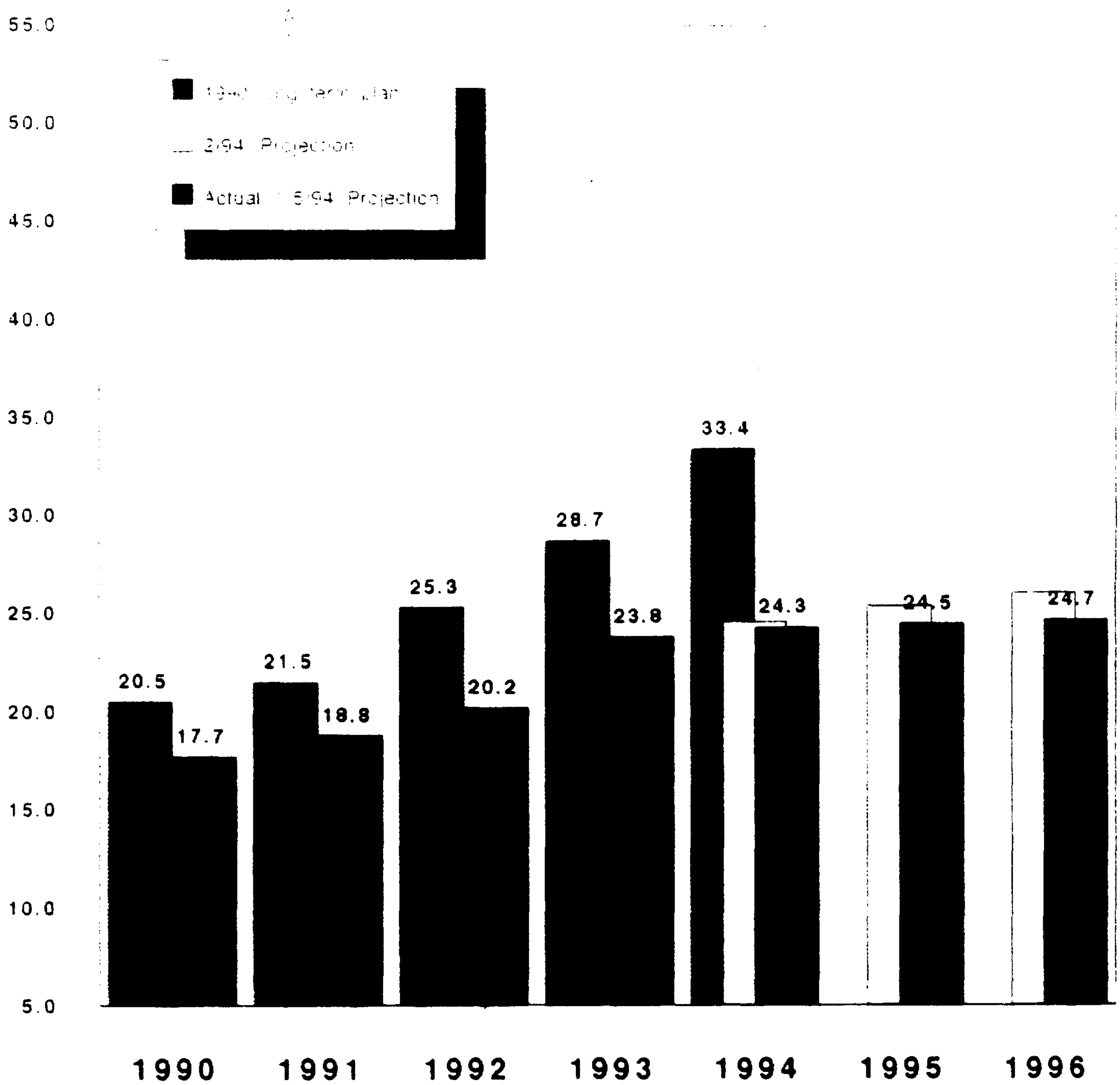
E! Entertainment Television, Inc.
Impact of Going Forward Rules

	HYPOTHETICAL PROGRAMMER			
	A	**B**	**C**	**D**
EXISTING RULES				
Monthly License Fee	$0.35	$0.10	$0.05	$0.00
7.5% Mark up	$0.03	$0.01	$0.00	$0.00
Per Channel Adjustment (Over 46 Channels)	$0.01	$0.01	$0.01	$0.01
Permitted Rate Increase	$0.39	$0.12	$0.06	$0.01
Operator's Gross Profit	***$0.04***	***$0.02***	***$0.01***	***$0.01***
Percentage of Programmer A Gross Profit	***100%***	***50%***	***25%***	***25%***
PROPOSAL				
Monthly License Fee	$0.35	$0.10	$0.05	$0.00
7.5% Mark up	$0.03	$0.01	$0.00	$0.00
Per Channel Adjustment (Over 46 Channels)	*$0.20*	*$0.20*	*$0.20*	*$0.20*
Permitted Rate Increase	$0.58	$0.31	$0.25	$0.20
Operator's Gross Profit	***$0.23***	***$0.21***	***$0.20***	***$0.20***
Percentage of Programmer A Gross Profit	***100%***	***91%***	***87%***	***87%***

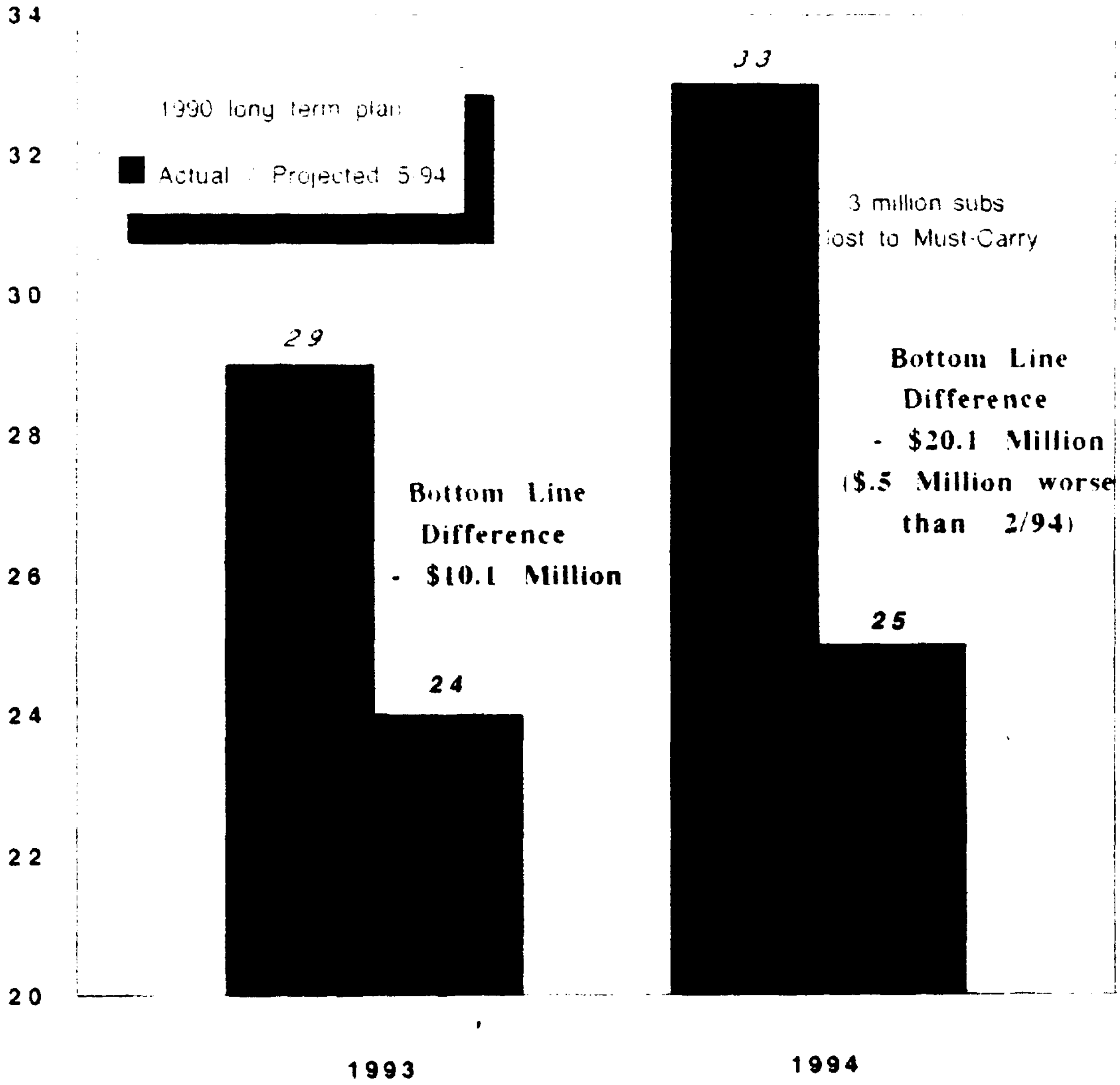
E! Entertainment Television, Inc.
1990 - 1997 Subscriber Growth
Effect of Regulation
(Millions)



E! Entertainment Television, Inc.
Actual and Projected Subscribers
Effect of Regulation
(Millions)



E! Entertainment Television, Inc.
1993 and 1994 Projected Subscribers
Effect of Regulation
(Millions)



E! Entertainment Television, Inc.
Cumulative Losses
Effect of Regulation
(Millions)